Louisiana Budget Project
February 2010

Scary Movies—Louisiana's 2011 Budget

The Curtain Rises

The Louisiana Legislature show opens March 29. Dress rehearsals will start a week or two before the session opens officially, when the legislative money committees -- the Senate Finance Committee and the House Committee on Appropriations -- begin hearings to review budgets submitted by state agencies for the 2011 Fiscal Year that begins July 1, 2010.

This year's show promises to be dramatic because Louisiana's revenues are anticipated to be about $1 billion *less* than what the state's General Fund needs to maintain public services. The Governor makes his entry onto the stage a bit sooner; he is scheduled to release his Executive Budget February 12. The Executive Budget provides the script for the Legislature's budget review, with rewrites along the way during committee hearings and votes on the House and Senate floors. The legislative process is heavily influenced by the Governor's ability to assign committee leadership.

Revenue shortfalls of the sort Louisiana has been experiencing are common across the nation. The deepest recession since the Great Depression has brought about a collapse in state revenues; bigger drops have never been seen. Unlike other states, though, Louisiana to this point has relied almost entirely on cuts in spending to keep the budget in balance. Most states – 30 last year – have instead opted for a balanced approach that includes revenue increases in addition to spending cuts.

As even the most pessimistic revenue projections turn out to be too optimistic, the state's ability to meet growing public needs without putting revenue on the table is questionable. Here are some things to look for when Governor Jindal's budget comes out.

Education

Despite already having been cut by $250 million in the last 13 months, higher education will face severe cuts in state General Fund spending. In the Governor's view, these new cuts may be offset, in part, by his recommendation that colleges be allowed to increase fees without seeking legislative approval. That is, Governor Jindal wants to deal with the state revenue crisis in part by making college less affordable for Louisiana's young people.

Higher education's state support represents 32% of the discretionary portion of the budget that is available to address the shortfall. Therefore, Louisiana's colleges and universities cannot conceivably escape additional cuts without the state shifting more of the shortfall to other crucial areas like health care, economic development, social services, and corrections – or including new revenue as part of the budget solution.

Already, almost 200 academic programs have been cut statewide, including over 100 at Baton Rouge's Southern University campus. Hundreds of LSU instructors recently received notice that they will not be reappointed. Unless the state finds additional sources of revenue, more severe cuts are coming.

Human Services

Like higher education, health care in Louisiana is at considerable risk of significant cuts over the next 18 months. Its support constitutes 33% of the discretionary part of the budget from which budget shortfalls are addressed. This situation creates an even greater dilemma for policy makers than the impending cuts to higher education because under federal rules, state health care dollars attract federal funds at a ratio as high as 4-to-1. That means that for each $1 cut in state support, the program would have to cut $5 in services.

Based on current law, Louisiana gets 81% of the cost of maintaining Medicaid from the federal government – health coverage for low-income residents who don't have employer coverage and can't afford their own. This match rate is slated to decline to 64% next year with the expiration of funds from the federal Recovery Act passed last February and formula changes driven by a short-term per capita income surge that followed Hurricane Katrina. The big issue here is how the Governor will address the looming deadline for the end of federal Medicaid stimulus money, which runs out December 31 unless Congress passes an extension. The state Department of Health and Hospitals estimates the impact in the upcoming fiscal year at $400 million, with an ongoing annualized impact of $900 million. This is an issue that is faced by almost all the states, and there has been considerable pressure on Congress to enact a solution.

It appears likely the Executive Budget proposed by Governor Jindal will contain cuts to Medicaid that range between $250 million and $400 million. The major impact would likely be reductions in reimbursement rates to service providers and in cuts or elimination of programs such as state homes for the developmentally disabled. Specific programs to watch for reductions or elimination include:

--LACHIP, which provides health care coverage to over 125,000 children;

--Prescription drug access serving 814,677 residents; and

--Personal Care Services, providing assistance that helps recipients remain at home rather than in a nursing home, to 15,731 elderly and disabled.

The other major area bracing for potentially significant reductions is social services. Programs such as low-income child care, food stamp administration, and family services are all constitutionally unprotected programs in Louisiana. While federal recovery funding has provided some relief to these programs, their state funding is vulnerable. This is troubling because the number of people needing services is increasing as the aftershocks of the Great Recession continue to roll through the state and the country.

* * *

These are some highlights of what to expect when the lights go out and the budget show begins. It's not too late, though, to try for a happier ending than seems destined to occur. The Governor's adamant opposition to increasing taxes leaves few options other than spending cuts for dealing with the gap between the growing needs of Louisianans and the resources the state has available to meet those needs. Short-term solutions such as raiding fund balances and postponing expenditures are likely to be suggested, but will not solve the problem so much as simply move it to a future fiscal year. Clearly, the state needs to change course and adopt a balanced approach to solving this crisis -- one that includes additional revenues in addition to cuts in spending. Otherwise, residents expecting family-friendly fare will be treated to another box-office budget bomb.